

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 11118
ORDER NO. R-10265

APPLICATION OF MERIDIAN OIL INC. FOR COMPULSORY POOLING, SAN JUAN
COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on October 13, 1994 at Santa Fe, New Mexico, before Examiner Jim Morrow.

NOW, on this _____ day of November, 1994, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Meridian Oil Inc., seeks an order pooling all mineral interests in the Gallup formation underlying the SW/4 NW/4 and all mineral interests in the Mesaverde formation underlying the N/2 of Section 35, Township 29 North, Range 10 West, NMPM, San Juan County, New Mexico, forming standard 40-acre and 320-acre spacing and proration units, respectively. Said units are to be dedicated to Meridian Oil Inc.'s Zachry Well No. 50 which is an existing oil well currently producing from the Gallup Pool at a location 1846 feet from the North line and 621 feet from the West line (Unit E) of said Section 30. Also to be considered will be the cost of participation in said well, including but not limited to the value of the existing wellbore, the costs of recompletion, and the allocation of those costs and income therefor as well as actual operating costs and charges for supervision, and the designation of applicant as the operator of the well. The Zachry Well No. 50 is currently producing from the Armenta Gallup Pool. Meridian proposes to also complete the well as a Blanco-Mesaverde gas well and commingle production downhole. Approval for the unorthodox gas well location was authorized by Administrative Order NSL-3377 dated March 21, 1994. Testimony by the applicant indicates that commingling approval has also been authorized.

(3) Meridian has a 100% working interest in the SW/4 NW/4 and an 87.5% working interest in the N/2 of Section 35; it has the right to recompleting the well in the Mesaverde formation. Amoco has a 12.5% working interest in the N/2 of Section 35. According to testimony by Meridian, Amoco would like to participate but wants a preferential right to purchase included in the operating agreement. This change is not acceptable to Meridian.

(4) Meridian submitted an AFE which shows estimated recompletion costs of \$207,435.

(5) Meridian is not asking to be reimbursed for the value of the wellbore. They propose that recompletion and commingling costs be borne by the Mesaverde working interest owners.

(6) Meridian presented geologic exhibits showing the Mesaverde to be present and likely productive at the proposed location.

(7) A risk penalty of 200% was requested based on the possibility that high water production could cause the Mesaverde to be non-commercial at this location.

(8) The operating agreement submitted by Meridian contains a provision for allocating costs between formations which appears to be reasonable and, according to testimony by Meridian, acceptable to Amoco.

(9) Overhead rates of \$4,000 per month, while drilling (recompleting) and \$433.34 per month while producing were requested. Annual adjustment of the rates was also requested.

(10) To avoid the drilling or recompletion of unnecessary wells, to protect correlative rights, to prevent waste and to afford the owner of each interest in said units the opportunity to recover or receive without unnecessary expense his just and fair share of the production in any pool resulting from this order, the application should be approved.

(11) Meridian should be designated as operator.

(12) No interest owner appeared at the hearing in opposition to the application.

(13) Any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(14) Any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the recompletion of the well.

(15) Any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(16) Following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(17) \$4,000 per month while drilling (recompleting) and \$433.34 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest. Such charges should be adjusted annually using approved COPAS accounting procedures.

(18) All proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(19) Upon the failure of the operator of said pooled unit to commence recompletion of the well to which said units are dedicated on or before March 1, 1995, the order pooling said units should become null and void and of no further effect whatsoever.

(20) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, this order should thereafter be of no further effect.

(21) The operator of the well and units should notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, in the Gallup formation underlying the SW/4 NW/4 and all mineral interests in the Mesaverde formation underlying the N/2 of Section 35, Township 29 North, Range 10 West, NMPM, San Juan County, New Mexico, are hereby pooled to form standard 40-acre and 320-acre spacing and proration units, respectively.

(2) Said units are to be dedicated to Meridian Oil Inc.'s Zachry Well No. 50 which is an existing oil well currently producing from the Armenta Gallup Pool and approved for completion in the Blanco-Mesaverde Pool by Order NSL-3372.

(3) Meridian Oil Inc. shall comply with Division General Rule 303.c and other applicable Division rules in obtaining approval for downhole commingling production from said pools in the Zachry Well No. 50.

PROVIDED HOWEVER THAT, the operator of said units shall commence the recompletion of said well on or before the 1st day of March, 1995 and shall thereafter continue operations with due diligence to test the Mesaverde formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the recompletion of said well on or before the 1st day of March, 1995, Decretory Paragraph Nos. (1) and (2) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER THAT, should said well not be recompleted or abandoned, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Decretory Paragraph Nos. (1) and (2) of this order should not be rescinded.

(3) Meridian Oil Inc. is hereby designated the operator of the subject well and units.

(4) After the effective date of this order and prior to commencing recompletion of said well, the operator shall furnish the Division and each known working interest owner in the subject units an itemized schedule of estimated well costs.

(5) Within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(6) Meridian shall not be reimbursed for the value of the wellbore.

(7) Recompletion and commingling costs shall be borne by the Mesaverde working interest owners.

(8) Operating costs following recompletion and commingling shall be allocated between formations and among working interest owners, including non-consenting working interest owners, in accordance with the terms of the operating agreement submitted into the hearing record by Meridian Oil Inc.

(9) The operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(10) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(11) The operator is hereby authorized to withhold the following costs and charges from production:

- (a) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him; and
- (b) As a charge for the risk involved in the recompletion of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(12) The operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(13) \$4,000 per month while drilling (recompleting) and \$433.34 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(14) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(15) Any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(16) All proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in San Juan County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(17) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(18) The operator of the subject well and units shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.

(19) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

WILLIAM J. LEMAY
Director

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